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ECONOMIC INVESTIGATION AS A BASIS FOR TARIFF LEGISLATION.

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I assume that the topic under discussion is not so much a question of whether or not economic investigation is necessary as a basis for tariff legislation, as it is a question of what form such economic investigation should take and what agencies should be employed. Briefly, I suppose the real question of the moment is whether or not an independent, non-partisan tariff board or tariff commission will serve a real public need.

The question involves two points: first, whether such a body can actually secure information which will be adequate for carrying out a fair tariff policy for the benefit of the people at large; and, secondly, if this should be the case, whether or not, under our existing political system, such information can be made really effective and have a real influence on tariff legislation. I wish to say that my experience has convinced me that the answer to both of these questions should be an affirmative one.

It has been my chief regret that the Tariff Board has for the time being become so much of a political issue, and that both its services and its failings have been so exaggerated. We have been forced against our will into the limelight when it was our desire to keep quietly at work in the background until the results of such work could be presented and stand on their own merits. The chief need of this country in tariff matters is to find some method of securing the results in the way of quiet investigations which are secured in European countries through the continuous activity of permanent officials of the different governmental departments concerned in tariff legislation. Although important work has been done abroad by certain special commissions, the real advantage which these countries have over us is to be found in the fact that there are permanent officials attached to the government departments who devote themselves solely to this problem, and who have been studying all the factors involved in tariff legislation for a generation. These men are, of course, not subject to any party control, and are not concerned with the success or the failure of

particular party policies. Furthermore, these officials have a most direct and, in many cases, a controlling influence on actual legislation.

The reason for the difference lies in the fact that they have the cabinet form of government rather than government by legislative committees, as is the rule under American practice. It is the function of the executive cabinet to frame bills for the consideration of Parliament, and it is because of this fact that officials who permanently devote themselves to the study of tariff conditions can put their knowledge to effective use in framing the bills which are first introduced.

It is, of course, idle to consider at this point any radical change in the American form of government; but the question arises whether it is not possible and desirable to create some new body, be it called a board, a commission, or a bureau, which shall be competent to supply impartial and accurate information for the use of the legislative body.

The question will naturally arise as to what kind of information is needed and how far this can be secured. If we assume, for the moment, that a protective policy is to be carried out, the principle has been laid down by the party of protection in this country that duties should be adjusted according to the difference in the cost of production at home and abroad. This principle has been much criticised and can of course be easily ridiculed if carried to extreme lengths.

It is easy to point out the difficulties in determining the cost of production, the great variations in the cost of production at different times and in different places in the same country, and the absurdity of applying this principle with absolutely rigid logic. But any principle of actual commercial legislation must be somewhat rough and ready and is never intended by practical men to be carried to absolutely logical conclusions. It can, of course, be pointed out that in strict logic such a principle as that just mentioned would require the enactment of a different tariff on goods imported from different countries, according to the variations in costs of production in those countries.

This, however, can be easily met by the application of a little common sense and the recognition that the real question is to adjust rates in such a way as to meet the competition of the

chief competing country. If there are several countries whose products compete actively, the true protectionists would demand that rates should be adjusted to meet the competition of that country in which the cost of production was the lowest.

It can, of course, be pointed out, furthermore, that the logical application of this principle would require enormous duties on articles, like coffee and rubber, which are not produced in this country at all. But here, again, it is not a question of strict logic, but of practical common sense. Not even the most extreme protectionist ever dreamed of applying the principle to articles of this kind. Some extremists have, doubtless, gone far in this direction; but as a practical proposition there is no difficulty in a legislative body coming to some rough conclusion as to the point at which the application of the principle, even from the point of view of protection, becomes impracticable and undesirable.

Now, so far as the difficulty of determining cost of production is concerned, I venture to say that, after our experience in trying to arrive at accurate conclusions in this regard, the present Tariff Board is not only aware of every difficulty which has been suggested by the critics of this idea, but could easily enumerate many other difficulties which have not been suggested. I am convinced, however, that it is possible in the case of most staple articles of manufacture, to determine the *ratio* of the costs between two different countries with sufficient accuracy for practical legislation. There is, of course, no single cost of production of any article for a given country, but there is a fairly definite difference in the money costs of a given specified article between two different countries; and this ratio can in many cases be sufficiently well determined to make such information of great value.

I speak all the more strongly on this point because I was myself skeptical, at the outset of this work, of the possibility of getting such information. I expressed myself frankly to that effect at an earlier period, and my statements of that time have been frequently quoted since, to prove that work of this nature is entirely illusory. Those statements really prove that I was not sufficiently familiar with the problem at that time. I was willing to undertake such work of investigation, though skeptical on this particular point, as I was convinced that, even if it should prove impossible to determine relative costs of production, there

were still many facts of another nature which had not been impartially determined concerning the relative conditions of industry in different countries, which were really essential for intelligent tariff legislation.

I do not wish to enter into a discussion, at this time, as to how far the existing idea that duties should be levied according to difference in cost of production is a completely adequate and satisfactory expression of the protectionist principle. I do wish, however, to assert that this idea forms a fundamental part of the protectionist creed. The basic reason for levying protective duties is to be found in the fact that the foreign manufacturer can compete in the home market at an advantage with the home producer, and can so undersell him as to reduce or restrict the domestic manufacture of the article in question. Whether this is due to some special natural advantage, to some greater skill or genius on the part of the foreign manufacturer, or to a lower labor cost because he pays lower wages, is not vital to the general idea. The fact remains that the reason why the foreign manufacturer can undersell the American manufacturer—if this be actually the case—is that he can produce the goods more cheaply.

In other words, the object of the policy is to protect the home manufacturer against the cheaper cost of production abroad. And thus the question of relative costs at home and abroad becomes an essential element in the protectionist principle.

As to the question of getting this information, the problem has proved easier, so far as domestic manufactures are concerned, than was expected, and has not proved insuperable in the case of foreign manufactures. Although in most cases it is impossible to get foreign information as complete and detailed as that which can be secured for the industry in this country, we are convinced that enough information can be secured for an adequate basis of judgment. In any case, even if foreign costs could not be secured, the determination of the cost of production at home would still be an important part of a tariff inquiry. The real question is not so much what is the actual mill cost in a competing country, but at what prices and under what conditions could goods be laid down in the American market to compete with the home product in the absence of any customs duty. These facts can be determined with sufficient accuracy for legislative purposes.

As to the extent to which, in addition to this, foreign costs can be determined, I can only refer you to the two investigations which have been completed by the Tariff Board—one on pulp and news-print paper, and one on wool and woolens. We believe that in both cases we arrived at accurate knowledge as to the general ratio of difference in cost. But it is not possible at this time to discuss the matter in detail.

Of course, many of you will say that all the foregoing implies the maintenance of the protective principle, and that since you do not believe in the protective principle you can see no utility in investigations of this kind.

There are two answers to this. In the first place, it seems to me absurd to protest against a better method of accomplishing a given result, simply because you do not believe in the result itself. If the free trader can get his policy adopted and put into actual practice by the people, well and good. But if, as a matter of actual politics, the people prefer a protective tariff, even the free trader ought to welcome an effort to have such tariff, of which he disapproves in principle, levied as honestly and fairly as possible. To do otherwise, would be to put one's self in the position of a man who should oppose regulations protecting the safety of passengers in ocean travel, or the welfare of seamen engaged in such occupation, on the ground that he did not believe in people going abroad, and therefore did not believe in making travel as safe as possible.

The second answer, however, is that a tariff with no protection features has never been seriously considered by any political party in this country. A strict tariff for revenue only must be levied according to the English system, which is to tax nothing which is produced within the country—unless the article bears a domestic excise tax—but to levy all customs revenue from non-competing articles not produced at home. Such a system seems to many of us ideal for revenue purposes, but it is not being seriously considered in this country today and has never become an issue.

One great party does, on the whole, believe in a revenue tariff and is working toward that end, meaning by this only that duties shall be levied primarily for revenue purposes rather than for protective purposes.

However, this program involves the placing of import duties

on a large variety of articles which are produced at home and which consequently bear incidental protection.

Therefore, a study of relative industrial conditions becomes as important for the person who believes in a revenue tariff as it does for the protectionist. In the first place, it may be assumed that a Congress wishing to adjust duties in this way, while aiming solely to secure revenue, would prefer to get the needed revenue with the least disturbance possible to business. Furthermore, they wish to raise the largest amount of revenue with the least burden possible on the consumer. This, again, can be determined only after a very careful study of relative industrial conditions.

Even more important, however, from the point of view of the revenue principle, is the fact that where it is intended to raise revenue by imposing duties on a large number of articles rather than on a few non-competing articles, it is impossible to make any accurate estimate of what the revenues will be, until a study has been made of relative prices and costs as a basis for determining how far imports would be increased or decreased by changes in duty.

Take, if you like, the complicated Schedule K. If it is proposed to raise revenue by the importation of raw wool, tops, yarns, cloth, clothing, and the like, it is a very difficult matter to determine what the relative rates of duties on these different articles should be, even for revenue purposes. That is, it would be quite possible, while reducing the duty on wool by one-half, to lessen the importation of raw wool in case the duty on tops and yarns should be put at a point where it would be more profitable to import these manufactured products than to import the raw material.

Similar illustrations could be multiplied indefinitely, and many inconsistencies could be found—even from the revenue point of view—both in the existing tariff and in many proposed changes. In various schedules of the present Tariff Act, for instance, cases can be found where the finished product is taxed lightly, or is on the free list, while the raw material from which it is made bears a heavy duty. This is obviously absurd from a protectionist point of view, but seems equally absurd from the point of view of revenue.

For these reasons, it seems to me that whether protection or

revenue is the principle to be followed, it has little bearing on the importance of careful economic investigation as a basis for the adjustment of rates. So long as duties are to be levied on a large number of articles produced at home, these duties can be levied with greater fairness to both producers and consumers, and with better results for the Government Treasury, through a careful analysis of relative prices, costs, and all other market conditions.

Finally, let me say one word as to the possibility of such information being secured by sound methods and with scholarly impartiality.

It is a common belief that in a matter of such political significance as the tariff, non-partisanship is impossible. In my opinion this belief is unduly cynical and pessimistic.

Probably no schedule in the tariff is more involved than Schedule K, with the many complicated relations between raw material, intermediate products, and finished goods; and yet a Board composed of three Republicans and two Democrats has been absolutely unanimous in its findings of fact in its investigations of this schedule. The individual members have different opinions as to what kind of tariff policy ought to be adopted on the basis of these facts. But such differences of opinion as to great economic principles has not in the slightest degree led to any disagreement as to what are the actual facts. As one of our Democratic members expressed it, "We all use the same multiplication table and the same yardstick."

I believe, then, that information of this character is of great value for tariff legislation, and that it can be secured impartially and with sufficient accuracy for practical purposes; and I am further convinced that such impartial analysis of the facts must in the end have an unquestionable influence on practical legislation.